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ROLE OF THE ACCOUNTING AND ACCOUNTING INFORMATION IN MANAGEMENT THE ASSET SPECIFIC FOR THE PUBLIC SECTOR

ULOGA RAČUNOVODSTVA I RAČUNOVODSTVENIH INFORMACIJA U UPRAVLJANJU IMOVINOM SPECIFIČNOM ZA JAVNI SEKTOR

ABSTRACT

A very important feature of the current reform process in public sector management, known as New Public Management, is to encourage effective, efficient and accountable management of all public resources. In doing so, there is an emphasised need for effective asset management in the public sector, particularly management the asset specific for the public sector. The necessary precondition for effective management the asset specific for the public sector include definition, accounting recognition, measurement and reporting on asset specific for the public sector, the establishment of the state asset register and effectively management the cost and performance. The results of the research conducted during 2012, on a selected sample of the budgetary users in Croatia, show that a small number of budgetary users have the register of assets they dispose. In order to create a base of information, experiences show that the accounting and accounting information are a very important precondition for efficient asset management. This leads to the main goal of this paper which relates to the identification and systematization of existing and possible models for recognition and measurement of asset specific for the public sector and their presentation in the financial statements. Current public sector accounting in Croatia is based on a modified accrual basis. That means that in the balance sheet are presented information about financial assets and non-financial assets, while the information on asset specific for the public sector are not presented in the balance sheet. The basic assumption of the efficient management the asset specific for the public sector represents the introduction of an accrual basis of accounting in public sector accounting in Croatia. Only by fulfilling this condition, it can be expected the improvement of the effectiveness and efficiency in management the asset specific for the public sector. In the paper primarily are used the secondary data which are processed by application the methods of analysis and synthesis, induction and deduction, the methods of comparison, compilation and classification.

Key words: accounting, accounting information, asset specific for the public sector, Croatia

SAŽETAK

Vrlo važna značajka aktualnog reformskog procesa upravljanja javnim sektorom, poznatim pod nazivom Novi javni menadžment, jest poticanje učinkovitog, efikasnog i odgovornog upravljanja sveukupnim javnim resursima. Pri tome, vrlo važnim se nameće potreba za učinkovitim upravljanjem imovinom u javnom sektoru, posebno imovinom koja je specifična isključivo za javni sektor. Nužne pretpostavke za učinkovito upravljanje imovinom specifičnom za javni sektor obuhvaćaju pojmovno određenje, računovodstveno priznavanje, mjerenje i izvještavanje o imovini specifičnoj za javni sektor, uspostavu registra državne imovine te učinkovito upravljanje troškovima i učincima. Rezultati provedenog istraživanja tijekom 2012. godine na odabranom uzorku proračunskih korisnika u Republici Hrvatskoj pokazuju da neznatan broj proračunskih korisnika ima registar imovine kojom raspolaže. Iskustva pokazuju da u cilju stvaranja informacijske osnove kao vrlo važne pretpostavke za upravljanje imovinom sve veću ulogu ima računovodstvo i računovodstvene informacije. Iz navedenog proizlazi cilj ovog rada koji se odnosi na utvrđivanje i sistematiziranje postojećih i mogućih modela priznavanja i vrednovanja imovine specifične za javni sektor te njihovog iskazivanja u financijskim izvještajima. U postojećem sustavu proračunskog računovodstva u Republici Hrvatskoj primjenjuje se model modificirane obračunske osnove što znači da se u bilanci iskazuje financijska imovina te dugotrajna nefinancijska imovina, dok se imovina specifična za javni sektor ne iskazuje u bilanci. Osnovnu pretpostavku učinkovitom upravljanju imovinom specifičnom za javni sektor predstavlja uvođenje modela obračunske osnove u proračunsko računovodstvo u Republici Hrvatskoj. Tek ispunjenjem ovog uvjeta može se očekivati poboljšanje učinkovitosti i efikasnosti u upravljanju imovinom specifičnom za javni sektor. U radu se prvenstveno koriste sekundarni podaci za čiju obradu se primjenjuju metode analize i sinteze, metode indukcije i dedukcije te metode komparacije, kompilacije i klasifikacije.

Cljučne riječi: računovodstvo, računovodstvene informacije, imovina specifična za javni sektor, Hrvatska

1. Introduction – the significance of the financial management in the public sector

One of the most important features of the current reforming process in public sector includes effective, responsible and efficient management. It is considered equally important the overall management of the public resources (financial and non-financial). For the purpose of this paper, the emphasis is on the management the asset specific for the public sector. Australia, United Kingdom and New Zealand are highlighted as leaders in all directions and trends of public sector reform (Hood, 1991, 4). These countries introduced many changes in area of modernization the public sector and the role of public management. Some of these reforms include: limiting the public spending, introduction of market criteria (or principles of good management) in general government operations, redirection of some rights and obligations of providing public services to private partners in order to increase the quality and availability of public services and encouraging the efficient management in public sector which includes the cost-benefit analysis (Guthrie, Olson and Humphrey, 1999, 211-214). All this reform processes in public sector in literature are known as *New Public Management*.

In public sector reform, all fields of public sector accounting have been concerned: management accounting, financial accounting and auditing. In modern conditions, when the citizens and the public are aware of their right to information about the use of public resources, the task of public sector accounting is to provide the information on all aspects of public spending and present them in a clear and understandable form, in the form of financial statements. In fact, financial resources are an essential condition for the ongoing working of public entities over time – control over the spending financial resources. Most countries in the public sector accounting are applying the cash basis of accounting. Those accounting systems which are based on cash basis recognize business events when cash flow is followed and inform users only about the cash and cash equivalents. Reforms in the public sector require the introduction the accrual basis in the public sector accounting.

In the last thirty years led many discussions about the benefits of introducing accrual accounting in the public sector. Taking into account some of these studies (Brorström, 1998; FEE, 2007; IFAC, 2010; Perrin, 1998), the benefits of the accrual basis of accounting in the public sector can be summarized in the following:

- better monitoring of assets,
- more precise cost measurement of supplied services and political programs in order to maximize public sectors' efficiency and productivity,
- more accurate measurement, communication and comparison of public sector entities' financial position and performance,
- better and comprehensive information for management and decision making (cost and price calculation, decision about in-sourcing or outsourcing, make-or-buy decisions, etc.),
- better management control (comparison of resources consumption and achieved results),
- the possibility for assessment of long-term financial stability of public policies.

Accordingly, the application of accrual basis in public sector accounting is expected to provide better information for internal and external use, through improving transparency, accountability and performance evaluation of public sector entities.

In this paper is highlighted the significance of public assets management in comprehensive public sector management through the classification, recognition and measurement of the asset specific for the public sector and its management on the international and national level.

2. Literature review

Management the asset specific for the public sector is often associated with the concept such as irrationality, inefficiency and a lack of transparency. For the purpose of efficient management the assets specific for the public sector it is necessary to define the term and types of the assets specific for the public sector, its accounting treatment which includes recognition and measurement. Accordingly, it is evident the significant role of the accounting and accounting information for the purpose of the efficient management the asset specific for the public sector. This is specially emphasized in the area of transparent and comprehensive basis of the information about the type and value of the asset specific for the public sector (Bond, Dent, 1998, 373).

2.1. Management of the asset specific for the public sector

Management processes in the public sector are primarily focused on satisfaction of public needs through the provision of public goods and public services, efficient management of public financial resources and their efficient reallocation in public spending, public debt service, public investments, preserve the value of national assets and achieving the national strategic goals and interests. Ranson and Stewart (1989) point out that management activity in the public sector should be in the function of satisfaction the needs of all citizens and management activities that imply comprehensive economic consequences. In order to achieve mentioned goals, the main features of public sector reform concerning on the implementation of principles of management in the private sector in the management practice in the public sector.

Tanzi and Prakash (2000, 1) consider that the efficiency of public administration should not be seen only from the point of spending public financial resources, but they warn on today's problem of non-recognition of the cost of using the public assets, which entities of the general government sector use in its operations. Management of the public asset includes the total assets which are used by public administration in performing the public interest and needs.

In order to achieve efficiently use of public assets it is necessary to determine all types of public assets and to define ownership and management rights over that assets. Associated with this, the construction of a unique register of state assets is a good solution for better and efficiently public assets management. Identification and adduction of certain types of public assets in the register requires its recognition, evaluation and measurement. Furthermore, the construction of a unique register of state assets encourages development and implementation of professional oriented instead of politically oriented public assets management.

Many authors (Barret, 2004; Bond and Dent, 1998) points out the role of accounting system and financial reporting in the reform of public assets management as an integral part of the financial management reform in the public sector. Pallot (1992) emphasized that making decisions about the use of public assets should be based on collected and comprehensive accounting information about the total assets and the related liabilities, revenues and expenses for each entity in the general government sector. As the data are the most important prerequisite for effective management in the public and private sector, the construction of an adequate accounting information system is a fundamental assumption of successful planning of public revenues and expenses, management and control over the public assets management and efficient measuring the effects arising from the operations of general government sector entities (Likierman, 1994).

Effective management in the public sector implies the application of management techniques from the private sector in the public sector as in developed countries is achieved through the implementation of accrual basis of accounting in financial accounting and budgeting in public sector. It is pointed out the measurement of outcomes, respectively the coordination and monitoring the relationship between the inputs, defined and achieved goals, purpose of operation the public sector entities and the achieved results. It leads to the transformation of government accounting information system from evidence system into a modern management and control system. Such changes in accounting information system have effects on improving the financial management and more precise assessments of public sector management performance. That effect it should be taken into consideration the needs for public assets management since the effective public assets management requires the

recognition and evidence of the total public assets in a comprehensive and unique register of state assets. It points out the need for construction a comprehensive database of various types of assets and the related costs and liabilities in order to ensure appropriate care on that assets as well as the preservation of its value in use. Furthermore, the development of register of state assets provides establishing the accountability for managing these assets. The establishment of the accountability ensure the prescribing the authority and duties of certain holders of management functions, management control and supervision over the public assets, reporting about the achieved goals and effects of management and disposal of public assets and undertaking actions against the managers who do not accord with regulations. Effective public assets management implies the realization of economic, infrastructural and other objectives defined in strategy.

Construction of the unique register of state assets allows the consideration of the features of public assets and costs and liabilities arising from these assets. Data in this register should be accurate, timely and hard as in this way it allows to make decisions about different manners of usage and disposal of public assets. As the best examples of countries that have built a unique and comprehensive register of state assets, Tanzi and Prakash (2000) indicate the United Kingdom, France, Australia and New Zealand. A unique database on public assets enables the rational management of maintenance cost of this assets and the assessment of opportunity cost of its alternative use.

The objectives and principles of public assets management vary among countries depending on the political system, the degree of democracy, the coverage of general government sector, the size of public assets portfolio, historical and cultural environment, the perception of the role of public sector management and government accounting information system. Although the above characteristics can be significantly different among countries, nevertheless it can be identified basic requirements that should be met in order to ensure effective and efficient public assets management, such as:

- construction of a unique register of state assets,
- classification of public assets,
- recognition and measurement of public assets,
- professional and responsible public assets management and
- management of costs and results (outcome).

2.2. The classification, recognition and measurement of the asset specific for the public sector

The first step in developing a unique register of state assets refers to the identification of different types of public assets and the purpose of its use. After that, it approaches to the valuation of these assets – it is not possible to measure effects of the use of public assets without defined its value. Future economic benefits are expected with the use of public assets; while still significant are the service potential and its use in performing the key government functions. There are many different classifications of public assets that arise from the dilemma about which types of public assets include in the register and how to evaluate them. With regard to the purpose of which it is used, the public assets can be classified as assets which is free available, public assets which is used by government institutions and assets which is used or can be used in the service provision.

According to IFAC (1995, 8-12), public assets include cash, financial assets, physical assets and intangible assets. International Public Sector Accounting Standards (IPSAS) adopted by

the International Public Sector Accounting Standards Board's (IPSASB) are the basis for classification and valuation of public assets (IFAC, 2013). According to IPSAS 1 *Presentation of financial statements* assets are divided into current and fixed assets as a standard classification of public assets in the balance sheet. IPSAS 17 *Property, plant and equipment* recognize different types of public assets as land, operational buildings, roads, machinery, electricity transmission networks, ships, aircraft, specialist military equipment, motor vehicles, furniture and fixtures, office equipment and oil rigs (IFAC, 2013, 549). Particularities in public assets management are highlighted in assets specific to the public sector which include: infrastructure assets, heritage assets, defense assets and natural resources (IFAC, 1995, 8-13).

There can be used different models of asset valuation depending on the adopted assets classification. A number of different measurement basis are employed to different degrees and in varying combinations in financial statements, and they include the following (IFAC, 1995, 34): historical cost, current cost, realizable (settlement) value and present value. Among them, historical cost is the measurement basis most commonly adopted by enterprises in preparing their financial statements. Sometimes, certain types of public assets are not recorded in financial statements, or their value equates to zero, just because that assets was acquired or inherited in the past and which, according to actual national practices does not have the characteristic of budgetary expenditure (Tanzi and Prakash, 2000).

Bond and Dent (1998) distinguish three main approaches to the valuation of public assets:

- valuation on the base of appraisal value of public assets,
- valuation on the base of expected revenues and
- market valuation according to characteristics of similar assets.

Problems arise in the valuation of the asset specific for the public sector since the main characteristics of these assets includes long useful life, unknown acquisition cost and the fact that its value increases with time. Also, there is no market for some types of assets so it is more difficult to determine the value for these assets. If the acquisition cost of some assets is not known or the price level has changed significantly, it is necessary the value of these assets subsequently evaluate using the methods and techniques that are required in IPSASs (IFAC, 2013). Due to the problems relating to the recognition of certain types of asset specific for the public sector that arising from the fact that acquisition costs are not known, generally accepted valuation methods are not defined, or there is no relevant market for these assets, it is often situation that these assets remain outside of the accounting records. Other solutions include recognition of these assets of a symbolic value (1 EUR or 1 \$) in the financial statement (France, Australian State of New South West) (IFAC, 1995, 37-38). In conditions when authorities decided not to publish information on particular public assets in the balance sheet, then this information should be published in the notes to the financial statements.

3. Management of the asset specific for the public sector in Croatia

Croatia has a lot of public assets that is used in the execution of public tasks, numerous properties and movable assets which are used for performing public tasks, housing and transportation of public administration, a number of natural and cultural resources as well as many public assets that is not in use but has a significant potential for its use.

For many years public assets in Croatia is classified, recorded and assessed on the wrong and inappropriate manner. Also, ignoring the fact that public assets belong to the public (citizens) resulted in the unfulfilled promises of public authorities that are related to establishing and

ensuring the most effective use of certain forms and types of public assets. Some types of public assets have never been in a useful and productive function of the state in order of execution and fulfilment of public interest. For other types of public assets is often pointed out that they are used in an ineffective and inefficient manner. There is almost no information on the cost-benefit analysis of the use of certain types of public assets and it is impossible to assess the feasibility and appropriateness of the chosen mode of the use of certain type of assets. Since for many years there was no comprehensive register of state assets, as it is proved by the research results, public asset management mainly came down to manage the states' business interests (shares) in public sector enterprises. The implication is that the process of privatization represents the only manner of public assets management.

The State Administrative Office for State Assets Management is the central authority for management and disposal of public assets⁷⁴ and coordinating management and disposal of assets owned by the Republic of Croatia. The unique central Register of state assets until 2014 has not been fully functional established and public disclosed. Therefore, it was not possible to define with certainty which and how much of public assets has Croatia and which is the value of this assets. Problems in establishing the Register of state assets are reflected in dispersed documentation on public resources by various evidences of public institutions.

The results of the research conducted in the middle of 2012 on the sample of 130 managers in the public sector (managers of the budgetary users) show that only 19,23% of budgetary users at that time had formed a register of assets they use and manage. Also, the results show that 96,9% of respondents presents a total fixed asset in its records and in this presentation is not included the asset specific for the public sector. Furthermore, 70,80% of respondents consider that it is necessary to record and value the assets specific for the public sector, even though they do not dispose of this data.

The table bellow summarizes the research results on the potential benefits from the use of accounting information that should be contained in the Register of state assets when the same will be established.

Table 1 The application of accounting information from the Register of state assets in public sector management

<i>Purpose</i>	<i>Response Percent</i>	<i>Response Count</i>
Cost-effective assets management	70,8%	92
Management procedures to maintain assets	65,4%	85
Optimal use of assets	58,5%	76
Comprehensive information needed for assets management	34,6%	45
Rational inventories management	28,5%	37
Successfully disposal of potential assets surplus	25,4%	33
Effective basis for the procurement processes management	23,1%	30
None of the above	4,6%	6
<i>Total</i>	<i>100%</i>	<i>130</i>

Source: Author's

The regulatory framework for managing public assets is ordered by The Act on management and disposal of assets owned by the Republic of Croatia (Official Gazette, 2013). Although

⁷⁴ In this paper terms state assets and public assets are used as synonyms.

mentioned Act defines over 30 types of state assets, the Register of state assets consists only of a list of owned interests in companies and properties divided into several categories. The tendency of the governmental structures is to extend the Register with new categories and new types of assets in order to record all existing types and forms of state assets.

For the efficient and effective management of public assets owned by Croatia, are necessary comprehensive and up to date information about all types of assets and related costs and liabilities. Therefore, the objectives that should be achieved by establishing the Register of state assets are (DUUDI, 2014):

- insight into the scope and structure of the assets owned by Croatia,
- supervision over the state of the assets owned by Croatia,
- establishment of mechanisms for high quality and faster decision making on assets management,
- monitoring of the benefits and effects of assets management.

The Register of state assets includes the following categories of state property (DUUDI, 2014): list of properties, list of stocks in companies and legal entities and list of business shares in companies. The category of properties includes the following types of assets: building land and buildings, public water, property that is used for the purpose of preserving the sovereignty, independence and defense of territorial integrity of Croatia, property used by the state administration body, agricultural land, commercial space, residential building, housing, forests and forestry land (DUUDI, 2014).

The current government accounting system in Croatia does not prescribe the mandatory presentation of assets specific for the public sector in the financial statements. Accordingly, in practice these types of public assets very often are not identified and not recorded in the financial statements. In the balance sheet is recorded and valued only financial assets and long term non-financial operating assets (capital assets). The acquisition costs of long term non-financial assets are not capitalized, but they are recognized as expenses in the period in which the acquisition is performed. Based on that, it can be concluded that the use of modified accrual basis of accounting in current government accounting system focuses on financial assets, while the presentation of information on the value and use of assets specific for the public sector is ignored.

4. Conclusion

Quality public assets management and the entire public sector can be achieved only if there is developed practice of performance measurement of public management, or the practice of measurement the effects of public spending with the existence of clearly defined authority and responsibility for management of public resources. Effective public assets management include making decisions about its use so as to achieve an optimal balance between benefits and costs for owners and users of public assets (citizens).

It is necessary to recognize all types of public assets in order to accurately determine the book value and economic value of public assets. In determining the public assets value, it is necessary to take into account economic characteristics of public assets relating to the service potential in order to increase net social benefits. In doing so, important role has a government accounting information system and accounting information that is the output of the accounting process and the basis for determining the public assets value, including assets specific for the public sector.

The current Register of state assets in Croatia is not comprehensive and does not include all types of public assets. The most significant reasons for this are the incompleteness of existing records of public assets, overlapping the formal property rights as well as the rights and responsibilities of use and/or management of a certain public assets among various entities in general government sector. The application of modified accrual basis in public sector accounting makes it difficult the recognition and measurement all types of public assets. Furthermore, the lack of qualified specialists for valuation of public assets as well as the insufficient uses of financial management methods leads to deficiencies of public assets data that tends to decrease the quality of public asset management.

It is concluded that despite of the establishment the Register of state assets, there is necessity for further improvement and upgrading of existing government accounting information system in Croatia in order to ensure a broader coverage of accounting information that is used in decision making and affects on the quality of management processes in the public sector.

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